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ABSTRACT

This paper provides a study of the evolution of the accounting system in the country of Columbia, South America, in light of the conflict between cultural values, other environmental factors, and the financial information generated. The paper begins with an overview of Colombia's political history as well as its economic and social changes during the past 30 years. Next, the bookkeeping requirements as identified by Colombian law concerning revenues collected by the country are described. These rules cover areas of duties on imported goods; warehousing charges; charges assessed on tonnage imported; registration fees on ships that are based out of New Granada; and confiscations, special services and fines. Finally, the paper discusses the changes in the government's accounting and financial organization over the past several decades and the resulting changes in the accounting profession, including the income tax law enactment of 1931; the development of the Colombian Association of Accountants; the Colombian Commercial Code; and the Regulation of Accounting Standard, decree 2160. It is noted that these changes have been influenced by a wide variety of historical, political, economic, and social factors. It is also noted that accounting has become a career choice offered in the Colombian higher education system; that there are 13 private and public colleges and universities that offer a major in accounting; and that the Minister of Education has set a minimum of accounting courses that must be offered. It is noted, too, that almost all of the instructors are practitioners who teach accounting courses on a part-time basis. Contains eight references. (GLR)

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ACCOUNTING IN THE CONTEXT OF ITS ENVIRONMENT: THE COLOMBIAN CASE

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ACCOUNTING IN THE CONTEXT OF ITS ENVIRONMENT: THE COLOMBIAN CASE

Accounting is an art -- not a science. Accountants record the financial information of an entity based upon their perception of the event. That perception will vary based upon the circumstance of the event and the environment in which they operate. As a result, the accounting process is continually adapting to necessary changes.

The business entity informs outsiders of their financial operations by way of financial statements. Arthur Andersen & Co. holds the view that:

> "the overall objective of financial statements should be to communicate information concerning the financial position of a business enterprise -- the nature and value of its economic resources, the claims of creditors against the resources, and the residual interest of owners in those resources, all at a specified date -- and the changes in the nature and value of those resources, claims, and interest for a specified period" (Arthur Andersen & Co., 1987, p. 9).

Each country has developed its financial accounting practices based on their own socio-political and economic environments and cultural influences. Because of this, no two countries have identical accounting standards. We do find that countries which have similar business environments are also similar in their accounting practices. Countries have been classified as belonging to one of the following accounting models: British-American, Continental, or South American (Mueller, 1987).

A study by Bloom, Naciri, and Laribee (1987) on the

cultural influences in accounting standard setting between United States, Canada, and England, found that standards appear to lag significantly behind environmental and cultural changes. A lag also appears to exist in the setting of standards subsequent to socio-economic and political changes, including governmental intervention. Additionally, cultural factors may serve as constraints inhibiting changes in accounting standards and limiting innovation in setting new standards. As a caveat to our findings, Muis would maintain that:

> Any cross-national comparison of different systems, which by definition are affected by numerous irrational variables such as power politics, historical evolution, lack of consensus on the foundations of the discipline and environmental differences -- all powerful constraints on progress towards change for the better -- is extremely risky (p. 294, 1977).

The conflict, between culture values and other environmental factors and the financial information generated through an accounting system is readily apparent in Colombia. The intent of this article is to provide a thorough study of the evolution of their accounting system.

COLOMBIA POLITICAL HISTORY

Colombia is named after Christopher Columbus. Spanish explorers looking for the gold treasures of El dorado made expeditions into the interior highlands of the country. Spain dominated the area until 1819 when their troops were defeated after nine years of warfare. This resulted in their independence from Spanish control and the nation of Gran

Colombia was formed. This union continued until 1830 when it dissolved and the countries of Venezuela, Ecuador and Colombia took its place. The constitution that was adopted in 1886 made Colombia an unitary republic, with a democratic and representative form of government.

Colombia, like many of the Latin American nations suffered from frequent and costly civil wars. Sixty three civil wars were fought during the remaining part of the 19th century. This violence continued into the 20th century, with more then 300,000 deaths resulting during the La Violencia period (1946-1966). This period of serious political and social conflicts resulted in a military government from 1953 until 1957.

Colombia, unlike other Latin American nations has never had a dictator that had gained control of the central power. This was partly due to the capacity of Colombia's traditional parties to modernize and adapt to social changes. Gabriel Silva, characterizes the Colombian political regime since the Frente Nacional as one of inclusive authoritatiarism where the traditional parties have committed themselves to coalition and compromise in the competition for the exercise of political clout (p. 12).

The installation of a bipartisan coalition brought a series of important results in the process of pacification and political stabilization in Colombia. the most prominent outcome was the end of bipartisan political violence, the acceptance of negotiated political confrontation and the

creation of appropriate conditions for economic growth and social development. In fact, the most significant economic and social changes of the last 30 years took place during the Frente Nacional period.

The economic development during the past 30 years has been swift and it has brought profound changes to both the economy and the society. This has taken place during the civil unrest that is being caused by the drug cartel and guerrilla groups in the rural areas. A mainly agricultural society evolved into one of growing diversification, with new means of urban employment and growth of modern labor-management relations. Public health has improved, illiteracy has fallen and enrollment in institutions of higher learning has increased.

COLOMBIA ACCOUNTING

There is very little written about the 19th and early 20th century accounting in Colombia. An example of 19th century accounting is found in the decrees issued during 1844 by the President of Nueva Granada, Pedro Alcantara Herran [New Granada was the name of the territory that was to become Colombia and Panama]. These decrees regulated the nationalization of ocean going ships, the recording of tonnage, the required information to be kept on warehousing, transportation and import/export of merchandise.
The following is the bookkeeping requirements as identified in Articles 3-5 (Decree 1844).

It is required that a book of records be kept to

accounts for revenues and expenditures. Revenues are collected from 1) duties on imported goods, 2) warehousing charges, 3) charges assessed on tonnage imported, 4) registration fees on ships that are based out of New Granada, and 5) confiscations, special services and fines. It is also required to maintain records of all expenditures made by the custom's officials. This book must show all funds received and all funds expended which includes expenses and funds forwarded to the government. It also must record the appraised value of the state properties in the customs' possession. The total revenues they collected and the appraised value of the properties at the beginning of the accounting period must equal the total expenditures to the general treasury, state treasury and the appraised value of the property at the end of the accounting period.

A subsidiary book of records is to be kept of the accounts receivable showing dates of charges and payments by ships. The charges are kept on the left side of the book and listed as debits and the payments are on the right side of the book and listed as credits. The books are to balance because it is assumed that all charges have been paid at the end of the accounting period.

A subsidiary book of records is to be kept regarding the warehousing charges showing both the storage charge and the information on who placed it in storage and who picked it up with the dates of each.

A book of records listing the arrival and departure of ships. The left side of the record shows the name of the ship, arrival date, its captain, tonnage, type of cargo, and last port of departure. The right side shows the date it departed, it destination and type of cargo.

The accounting period will be an economic year (12 months). The required books must be signed by the accountant who prepared them, the governor of the province, his secretary, and the customs' administrator. The pages of the books must be numbered and initialed by the governor.

The Colombian accounting profession had its beginning with the Kemmerer Mission in 1923. It was at this time that the Colombian Government saw a need to develop a set of laws and regulations regarding commerce and finances within their country. The government hired consultants (Edwin Kemmerer, Thomas Lill and others) from the United States to study its system and to make recommendations for any needed improvements. Their recommendation resulted in laws being passed in 1923 and 1924 that regulated the teaching of commerce, the organization and creation of a central bank and other banking institution, the creation of the department of controllership and the government accounting system. This major changes in the government's accounting and financial operations caused a considerable interest in individuals wanting to become accountants. The first accountants received their training in the newly created controllership department (Clarke 1967).

With this change in the government's accounting and financial organization the first income tax law (Law 81) was passed in 1931. Before that time, the only sources of revenue for the government was through the custom's duties, tariffs and other easy-to-collect fees. Until this time there was very little need for accountants in Colombia. This law today could be called the Colombian accountants' employment act. It caused businesses to hire accountants to create the needed financial statements and tax reports, and the government employed accountants to see that the reports were being done correctly.

Currently taxpayers who are legally required to keep books of account are subject to a fine equivalent to 0.5 per cent of the net worth or net income for the previous year, whichever is greater, not to exceed P20,000,000, if they

1. fail to keep books of account,
2. fail to register their require books,
3. have incomplete or inadequate accounting,
4. refusal, without out good reason, to let the government tax people example their books or supporting documents,
5. keep more then one set of books, or
6. are more then four months behind in recording their transactions.

The tax law required that the income be determined on a calendar year basis. It therefore resulted in all businesses and individuals keeping their financial reports on a calendar

year basis. International firms that may require a fiscal year financial statement for their Colombian business, still must determine their taxable income on a calendar year. There is a old Colombian saying that states "customs makes the law," and calendar year accounting periods have become the law in Colombia.

During the 1930s, accountants would get together to discuss accounting problems they were facing. As a result of these meetings, accounting association were formed in all the major cities. These associations became centers of consulting, research, and studies of problems related to the Colombian accounting system. They began to attempt to reform and improve the Commerce Laws.

In 1939, Alfred C. Clarke (a U.S. CPA) formed the Colombian Association of Accountants. The by-laws of this association were based on the one used in the United States and England. He also founded the association's magazine titled the "Colombian Accountant".

The government passed a decree in 1939 to create The Superintendencia de Sociedades Anonimas (Superintendent of Companies). This board was given the power at theat time to establish accounting as a profession in Colombia. However, The accounting as a profession was not established until 1960. This was the result of disagreements between the various accounting associations, the business community and the government officials.

During the 1940-50's, schools and college began teaching

courses in accounting. For the most part these were bookkeeping courses. There was little need by Colombian businessmen to have an accountant. The title of accountant was used only to satisfy the law that the financial statements be signed by an accountant.

The Colombian Commercial Code requires that the accounting records are to be kept in registered books, in Spanish, and use the double-entry bookkeeping system. The books must have numbered pages and each of the blank pages must be rubricated by the secretary of the local Chamber of Commerce. The entries are to be made in chronological order and any corrections or changes to the original entries must be supported. It is acceptable to use mechanized or computerized accounting records. Computers are in wide use in Colombia. All required books and accounting records are to be kept for at least ten years.

Law 145 of 1960 established and regulated the accounting profession in Colombia. This law awarded public accounting certificates to most of the qualified public accountants in Colombia at that time on the basis of proven experience in the accounting or auditing field. The main requirement today for the certificate is to receive an accounting degree from a government approved college or university.

The law created an eight member Central Board of Accountants under the supervision of the Ministry of Education. The members are elected for a two year term and come from the Ministry of Education, the banking system, the

university system, the business community, and the public accountants. They inspect and supervise the public accountants to insure that they are following the legal requirements of accounting. This board has the power to sanction accountants who they find have not followed the legal, ethical, and procedural requirements of the accounting profession. They are responsible to see that no one holds themselves out to be a public accountant without first being licensed by the board.

Regulation of Accounting Standard, decree 2160, became law July 9, 1986. This law stated what are the generally accepted accounting principles/standards and the form and content of the financial statements. The accounting standards used in this decree is for the most part, the standards published by the International Accounting Standards Committee, which is based on the concepts of historical cost and accrual accounting. This decree took effect on January 1, 1988. It also created The Permanent Council which is responsible for revisions to these principles/standards and to see that they are being followed.

Approximately seventy per cent of the Colombian exports are to the United States. Because of the commerce between the two countries the United States has had a considerable influence on the Colombian accounting system. The accounting profession keeps informed about the United States accounting standards and have in the past, incorporates many of them into their standards. Many Colombians receive their

university education in the United States and incorporate this information into their accounting practices when they return to Colombia.

Accounting has become a career choice offered in the Colombian higher education system. Currently there are 13 private and public colleges and universities that offer a major in accounting. The accounting texts used are Spanish translations of the United States accounting texts. The most common one that is used is the Finny & Miller accounting series. The Minister of Education has set a minimum of accounting courses that must be offered. The quality of education is not consistent amoung the colleges. As in the United States, some colleges have a better reputation than others. There are few full time accounting instructors. Almost all of the instructors are practitioners who teach accounting courses on a part time basis. Having practitioners as instructors may be an advantage to the students as they will be receiving a more practical than theoretical accounting education. The beginning accountant will not have the opportunity of staff training that is a part of many United States accounting firms. Most of the Colombian accountant (public or private) work as sole practitioners or in small groups.

Most of Colombian's businesses would be classified as small. The large majority of the small businessmen (10 or fewer employees) have limited education. In many cases less than five years. Although their education is limited they

know how to read, write, add, subtract and build their product.. They have learned by trial and error and therefore are practical people. They learn best by seeing the concepts usefulness to their individual business. Ideas that are complex and fairly subtle are not of much use to him as he wants to have immediate knowledge of the application of the concept. The accounting system in its complex form is of little use to the small business man. They need a simple bookkeeping system that he can understand and apply to his own business. Consequently, the larges industries have accurate accounting while smaller ones have little or none (Ronan 1982).

Many international accounting firms have offices in Colombia and they employe Colombian accountants. These firms do most of their accounting/auditing work with firms that have international ownership. Regardless of the accounting standards of the Colombia firm's home office, the provisions of the Commercial Code must be observed. This means that they are required to appoint a statutory auditor. This auditor must be a public accountant that is licensed to practice in Colombia. Their books must be kept and their financial statement must follow Colombian law and be prepared in Spanish.

CONCLUSION

The Colombian accounting system has changed to meet the government's needs to have financial information. During the

19th and early 20th century the government source of revenues were from import tariffs and other easy to collect fees. The accounting systems that were required were for government agencies that were responsible for collecting and accounting for their revenues and expenditures. The system was more of a listing of the financial actives than the currently used double booking system.

The first major need for a change in the accounting of financial data was caused by the taxation of income. The Commercial Code prescribes how the accounting records are to be kept. Unlike the United States, Colombia law determines what the generally accepted accounting standards are and the form and content of the financial statements.

The accounting changes in Colombia have been influenced by a wide variety of historical, political, economic, and social factors. The Colombian accounting system can be regarded as the collection and communication of information for making and controlling the implementation of economic decisions in both the public and the private sector. Because they lacked trained accountants, they have gone through a long transitional period before established the existing uniform accounting system. It would appear that Colombia has created an accounting system that is appropriate to its needs.

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